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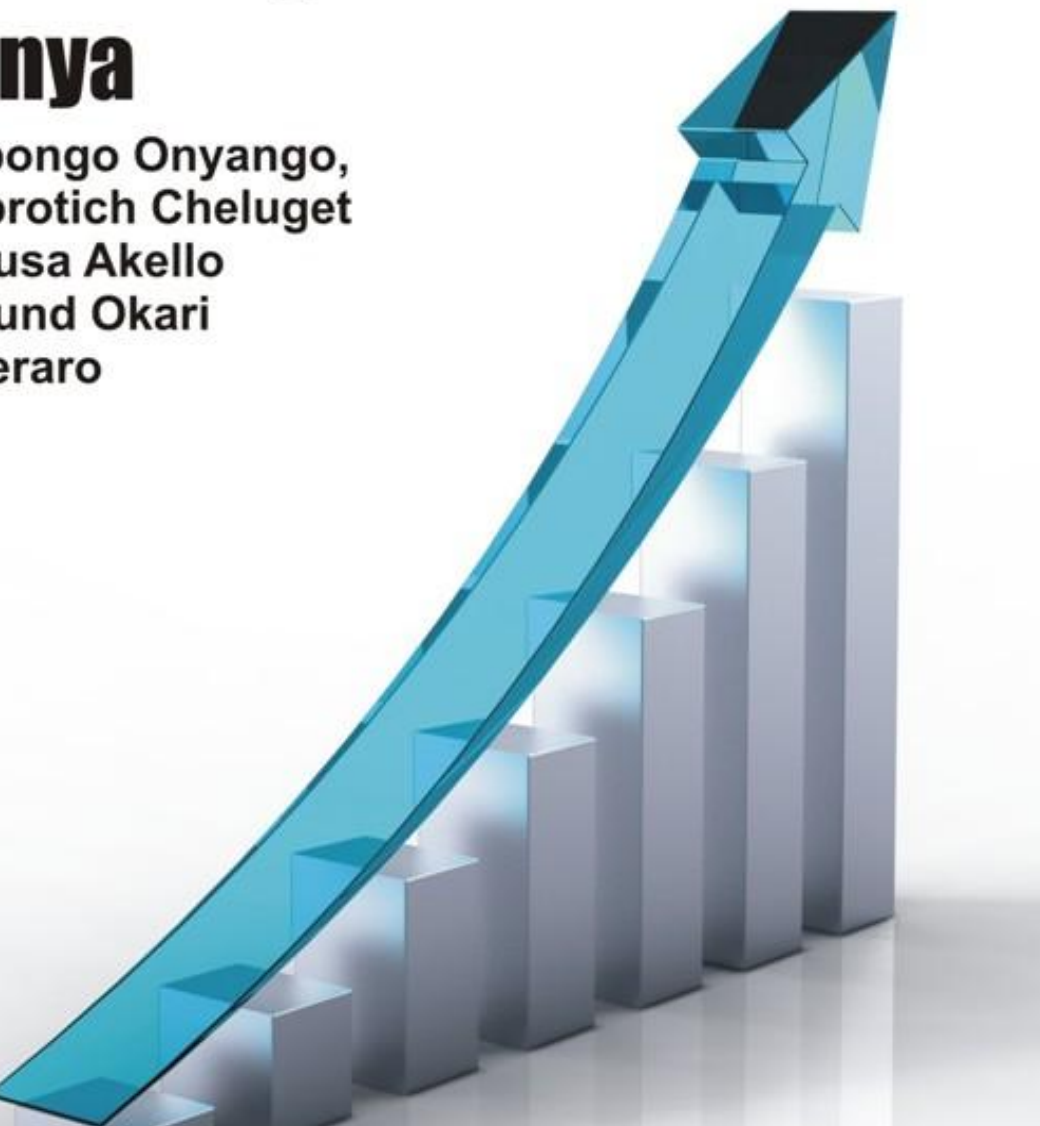

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Full Length Research

Factors to be considered in revenue allocation to devolved government in Kenya

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Kenya's 2010 Constitution declares equity to be an underlying principle of governance in the country, which is consistent with its provision for devolution. While nature vastly differentiated Kenya, successive governments did little to exploit opportunities for providing the scope for nationwide development. Kenya's search for cohesive national development will only succeed if there is a nationwide appreciation of the history of our contemporary inequalities, which are at the root of Kenyans' great hope in devolution. What matters now is the need for equitable disbursement of funds to the 47 countries. This study, it is hoped, will provide a comprehensive overview of the factors to be considered in revenue allocation to the devolved government in Kenya.

Key Words: Factors, devolution, revenue, allocation, constitution, county, government.

INTRODUCTION

The process of writing a new constitution for Kenya dates back to early 90's with the clamour for a Multi-Party democracy. The first attempt was unsuccessful when the proposed constitution (Commonly referred to as the Wako Draft) was rejected in a national referendum in November 2005 (Omolo, 2010). The current process started in April 2008 as part of the National Accord agreements for sustained stability in Kenya. The struggle for constitutional reforms has its roots in the desire to correct the deficiencies in the governance framework of the country. A central objective of the struggle has been the restoration of power to local communities to manage their affairs particularly in matters of local development (TBurugu, 2010). The Constitution of Kenya, 2010 has fundamentally altered this defective governance framework of the country through various far reaching reforms. Of these far reaching reforms devolution is likely to have the most profound impact on governance. (Mwenda 2010).

This study was guided by the need of the devolved Government of Kenya to come up with an equitable way of allocating funds to the newly created 47 Counties. Optimism about the positive economic effects of devolution was a strong factor in the devolution debates in the agitation for the Constitutional change in Kenya. According to Chapter two of the new Kenya Constitution; the sovereign power of the people is exercised at - (a) the national level; (b) the regional level; and (c) the county level. The governments at the various levels are distinct and inter-dependent and conduct their mutual relations on the basis of consultation and cooperation.‖ This sets the stage for allocation of funds to run these three tier Governments. The Commission on Revenue Allocation (CRA) has been charged with the responsibility of ensuring equitable revenue allocation to the Central Government and the local Governments.

The advent of devolution in the government of Kenya is expected to lead to the practice of a more balanced system of fiscal federalism, more transparency, fiscal accountability and more devolution of power to lower units of government and hence more fiscal decentralization. While a greater degree of decentralization would, no doubt, contribute to greater grassroots participation, generate more local development, increase efficiency and equity, create employment opportunity and promote poverty alleviation, it must not be done in such a way as to conflict with the national objective or unduly complicate it (Omolo, 2010). The change in the internal geographic structure of the nation as a result of strong and continuous agitation for fair share of the 'national cake' led to distortion in the revenue allocation formula. It is in the light of the unbalanced economic growth process in Kenya that we need to examine empirically the factors to be considered in revenue allocation to the county governments.

The issue of revenue allocation in Kenya is a fundamental one that border on promotion of national unity and rapid economic growth. It is however sad that despite continuous increase in revenue generation in Kenya over the years, the expected impact on economic growth in Kenya has not been realized (Kiringai, 2006). Hence the need to examine empirically the factors that need to be considered in coming up with an equitable revenue allocation formula. According to the new Constitution of Kenya, Division of Revenue is provided for in Article 217. In doing so the senate shall take into consideration a number of factors in determining the basis for allocating among the counties the share of national revenue through a resolution every 5 years. However these factors are not clearly spelt out, this calls for an empirical investigation into the factors to be considered.

LITERATURE REVIEW

Kenya's 1963 Constitution did not provide for revenue sharing between national and sub-national governments, a situation that led to under-provisioning at these lower levels of government, affecting their service delivery. This position has been reversed in the new Constitution, which entrenches fiscal devolution that provides for sharing of both the revenue base and the nationally collected revenues. Chapter eleven of the New Constitution of Kenya provides for a devolved government (Mwenda, 2010).

Devolution can impact governance by reducing the possibility of grand corruption as resources are distributed and local communities can be able to mobilize pressure against rent seeking and corruption (Mwenda, 2009). It can make a democracy stronger by giving people more say in their local matters. It allows people living in a particular area to make their own decisions on matters that concern them directly. In addition, the 2010 Constitution sets out criteria to be followed when sharing the revenues vertically; among other things the Constitution requires the following:

- Prioritizing national interest, specifically national debt obligations;
- Addressing the needs of the national government while ensuring counties deliver on functions allocated to them and meet their development needs;
- Maximizing fiscal capacity and efficiency of county governments.
- Addressing disparities between and within counties together with incorporation of affirmative action for disadvantaged areas and groups;
- Optimizing county economic potentials; Ensuring stable and predictable revenue allocations; and maintaining flexibility and ability to respond to emergencies.

The 2010 Constitution goes ahead to set the aggregate minimum transfer to counties at 15 per cent of centrally collected revenues, a threshold that will be based on the latest audited national revenue receipts. The Constitution also mandates additional transfers depending on functions delegated to countries. In addition, the Government is required to establish an Equalization Fund, financed by 0.005 per cent (one-half per cent) of nationally collected revenues, to be reserved for marginalized areas to finance basic services like water, roads, electricity, and so on. The fund is to be maintained for an initial 20 years at least, and may be extended by the National Assembly. The Constitution provides that a bill to appropriate money out of the Equalization Fund be prepared and scrutinized by the Revenue Sharing Commission, which is required to advise the two Houses of the National Assembly. Unfortunately, the Constitution does not indicate who is responsible for preparing this bill. In the view of the authors, this provision should be detailed in the appropriate law. With the clarity on revenue sharing provisions that provide for a minimum quantum of resources set aside for counties, the possibility of conflicts between the legislature and the executive and between the national government and the counties has been minimized. Some politicians have created confusion, however, by giving their constituents the impression that the 15 per cent allocation from the central government will be given in addition to what they are already getting from the Local Authorities Transfer Fund (LATF) and the CDF. Ideally, there should be no confusion because the Constitution makes it clear that counties should be given adequate funds to fulfill their mandates.

There is an urgent need to move fast to delineate the functions of the two levels of government and eliminate duplication. Depending on which functions are devolved, it will be much easier to determine whether 15 per cent is adequate or not. If it is not adequate, the Constitution requires that more resources be transferred to match the increased functions of the country governments.

DATA AND METHODOLOGY

The researchers used survey study method to collect primary data, while secondary data was collected using document analysis. The design enabled the researchers to collect data on the factors to be considered in revenue allocation. The people involved in the study were both male and female adults who cut across all socio-economic status.

Population

The population of this study comprised the 47 counties in Kenya. The target population was the three counties namely Kiambu County, Kisii County and Homa Bay County. The target population was chosen because they represent the three categories of counties, namely, self sustaining counties (Kiambu), non marginalised counties (Kisii) and marginalised counties (Homa-Bay).

Sampling method was adopted to adequately manipulate the enormous population. In order to determine the sample size of the study, the researchers drew the sample from the population of Local Government Headquarters in the three countries. This involved the planning department of the local governments. The population of 26 local authorities in the three counties was used. Cluster sampling, according to Kothari (2009), is considered a more practical approach to surveys because it samples by groups or clusters of elements rather than by individual elements". Each of the target population was divided into three clusters.

EMPIRICAL RESULTS

Past Political Affiliation

There exists a great disparity in the distribution of income in Kenya, with extremes of the wealthy on one end and the poor on the other. The country's top 10% households control 42% of the total income while the bottom 10% controls less than 1%. This problem of inequality is born and bred in Kenya and it is political to the extent that it results from resource allocation – a highly contested political terrain. The emergence of a powerful political and landed class that moved to active party politics to protect their ill-gotten wealth meant that politics in Kenya became a monopoly of this class to the exclusion of the majority of Kenyans who happen to be poor.

There followed a complex web of corruption initiated purposely by this political class to acquire capital to buy political power. Those who acquired the political capital were elected to Parliament and appointed Cabinet Ministers, positions that ensured that they politically protected their ill-gotten wealth. This also ensured that they retained access to state resources, which they would distribute to serve the political interest of the regime in power. This scenario is recurrent, and can be seen replaying itself even under the present regime. Clearly, it is adverse to the process of development in Kenya. Past political affiliation only applies to a class of individuals and not regions. The study found that this parameter is therefore not appropriate in allocating revenue to the counties.

Poverty index

Poverty in Kenya is caused by a number of factors, which include low agricultural productivity and poor marketing of industrial and agricultural products, insecurity, unemployment and low wages, poor governance, misallocation of land, inequality of income and assets, inequality in access to economic opportunities, lack of education, unfavourable climatic conditions, HIV/AIDs, gender insensitive property rights regimes, and weak democratic institutions. The highest wage from 0 to 90% level is 15,000 a month. From 91% - 99 % the wage rockets to Kshs 100, 000. And the 1% above the 99% level earn beyond Kshs 100,000 a month. Thus the top 1% can be considered as the economic, social and political elite. And the nine percent below may be categorized as the various levels of the emerging middle class. The remaining 90% who earn 15,000 (highest) to 0 monthly are workers and peasants in urban and rural areas. A more comprehensive picture of social stratification however is not possible given the lack of data on income and especially assets. Most households do not report truthfully or fully the assets they own in national surveys.

Moreover such surveys are often designed to collect data on household consumption rather than ownership of assets or household wealth. Given these limitations, a large part of our analysis is restricted to the 14% of the Kenyan working population who are wage earners and their households. It is nevertheless clear that this sub set of the sample is representative of the broader society, in particular trends can be observed in the constitution of socio-economic classes. The huge inequality in wages, if anything, understates that of wealth in general. Moreover it mirrors the huge qualitative difference in the living standards enjoyed by the ruling elite (political, business, and so on) and those of everybody else. The wealth gap between the elite constituting less than 1% of the population but controlling disproportionate resources and earning sometimes thousands of times the median wage earned by the bottom 90% is only hinted at by the wage differentials. Clearly the wealthiest Kenyans make most of their money from their wealth and a more careful study of the wealth distribution using adapted data sources and methodology is required.

Poverty levels in Homabay county was found to be over 10 times higher than the neigbouring Kisii county. This was based on the income levels of an average adult provided by the local authorities.

Difference in poverty levels

Poverty levels can vary within and without regions. For instance, in an earlier survey, although the proportion of people living below the poverty line in Nairobi is 44%, poverty levels range from 8% in Nairobi west, Kibera division to 77% in Makongeni, Makadara Division (GoK, 2010). The social phenomenon ordinarily known as inequality evokes strong passions and sometimes stirs controversy. In Kenya this disparity extends to inequality in counties. Some regions have continued to be neglected over the years and the poverty index of counties is as varied as the poverty index of individuals. The marginalized counties should therefore be given incentives to catch up with the non marginalized countries.

Population of the county

Centralization denied the local population a genuine platform for participation as the public officers at the centre are far removed from the citizens and not bound by the views or suggestions made to field officers. A critical issue for consideration is the determination of the criteria to be used to determine the size and number of Wards in Kenya, and consecutively, the determination of Wards per each County. In this study, the public has elicited various views on the size and population of a County Assembly ward. A sub location for densely populated areas and a location for sparsely populated areas should be divided according to a population quota to ensure efficient service delivery.

All respondents were unanimous that population size should not be considered in the sparsely populated areas (Northern and North Eastern Kenya) because of low population occupying very big area. This should not to obscure the specificity of service delivery needs of the county populations and, therefore, the necessary focus with which population should be considered as a parameter for revenue allocation should be designed and carried out in such a way that there is equity in the densely and sparsely populated areas. A more enlightened approach would be to observe and borrow Constitutional requirements on Parliamentary representation boundaries formula that may lead to some merger of current local authority wards so as to establish more realistic boundaries for the county wards. There appears to be a commonality of thought that highly populated areas should enjoy a dimension shrink while areas that are thinly populated should suffer a land mass pull out in line with provisions 89(6) of the Constitution.

Infrastructure development of the county

Regional disparities in infrastructure development in Kenya are closely related to expenditure on infrastructure. Some counties like Kiambu county are highly developed in terms of infrastructure compared to Homa Bay County. County governments to plan, prioritize, and use public resources to deliver public services and infrastructure in response to local needs. For the decentralisation system to be one in which people have greater access to adequate and relevant services that satisfy local needs and preferences, there is need for equitable distribution of infrastructure development.

92.8% of respondents were in agreement that infrastructure development should be one of the key parameters in revenue allocation to county governments with a view to bringing equitable development.

County governments have been assigned the central role in the development and delivery of infrastructure in the new constitution. Counties are mandated to plan, develop, manage and maintain a broad range of infrastructure within their jurisdictions. These include agriculture related facilities such as cattle dips, livestock sale yards, county abattoirs, health facilities, refuse dumps, cinemas, libraries, museums, county roads, ferries and harbours, markets, housing, village polytechnics, storm water drainage, water and sanitation installations, fire stations, among others. The National Government is, among other roles, charged with the responsibility for national economic policy and planning, national standards, regulation, national public works, national statistics, immigration and citizenship, macroeconomic management, foreign affairs, defence and natural resources.

The infrastructure development responsibilities of counties include: county roads, storm water drains, water supply, sewerage, solid waste dumps, hazardous waste disposal facilities, security and street lighting, telecommunications utilities, ferries and harbours, public road transport, markets, country abattoirs and slaughter houses, livestock sale yards, countty assembly halls, county offices and buildings, fire stations, county hospitals, health centres and dispensaries, cemeteries, conference and social halls, cinemas, museums, electricity and gas reticulation infrastructure, libraries, county stadia and parks, vehicle parking yards and silos, housing development, village polytechnics, home craft centres, nursery schools and child care facilities.

CONCLUSION AND RECOMMENDATIONS

Devolution of government is a new phenomenon in Kenya; the Government shall, therefore, need to take into consideration a number of factors in determining the basis for allocating among the counties the share of national revenue through a resolution every 5 years. These factors are not spelt out in the constitution and are subject to review every five years. In order to make revenue allocation be successful and without conflict the criteria for identification of marginalized areas should be transparent and clear to all; however there is no clear method to be followed. For instance, the conflict is usually whether the principle of derivation, need, natural interest or landmass should be used as a basis for the purpose. Even when these principles may be generally accepted as the main basis for working out revenue allocation formula, conflict is still likely to arise following as to which of the principles take precedence over others as the main criteria for sharing the revenue and determining marginalization.

This paper considered four parameters namely, past political affiliation, poverty index, population and infrastructure development. The study reveals that past political affiliation should not be considered as parameter for revenue allocation. The study recommends that poverty index, population and level of infrastructure development on the countries of Kenya should be considered when allocating revenue to the 47 counties in Kenya. We recommend further research should be carried out to test more parameters and also determine the proportions of the parameters to be applied in the revenue allocation formula. Further research is also recommended for a viable and flexible finance model for equitable revenue allocation.

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